



**OFFICE OF THE
CITY AUDITOR**

**A COMPLIANCE AUDIT OF THE CITY
AND REDEVELOPMENT AGENCY INVESTMENT
PROGRAMS FOR SEPTEMBER 1985**

**A REPORT TO THE
SAN JOSE
CITY COUNCIL
SEPTEMBER 1985**

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EXECUTIVE SUMMARY

In response to an August 5, 1985 Council Finance Committee request, the City Auditor has initiated a process for monthly reviews of investments for the City and the Redevelopment Agency. The Mayor's August 5, 1985 memorandum to the Finance Committee specified that the review should cover compliance with the City's Investment Policy, safekeeping of securities and investment documentation.

Our review of September 1985 Investment transactions revealed no exceptions to Policy requirements regarding types of instrument, maturity, issuer ratings and portfolio mix. However, during our review we noted that non-compliance with the City's Investment Policy may go undetected for as long as three weeks. This can occur because Finance staff do not maintain or utilize the MONEymax system, the City's primary tool for managing its investment portfolio, on a timely basis.

In addition, improvements are required to insure prompt recordation of investment revenues. Further, procedural changes are needed for: documentation of daily investment decisions; compliance with Policy requirements regarding prequalification of financial institutions; and proper reconciliations of investment transactions.

It is recommended that:

Recommendation #1

Treasury staff utilize MONEymax in managing the portfolio and making investment decisions by: running a portfolio profile daily or on each day when purchases, sales or maturities occur; and using the portfolio profile report in making investment decisions.

(Priority 1)

Recommendation #8

Treasury document reasons for sales. (Priority 2)

Recommendation #9

Accounting complete improvements in reconciliation procedures. (Priority 2)

INSTANCES OF NONCOMPLIANCE WITH THE CITY'S INVESTMENT POLICY CAN GO UNDETECTED FOR AS LONG AS THREE WEEKS

In response to an August 5, 1985 Council Finance Committee request, the City Auditor has initiated a process for monthly reviews of investments for the City and the Redevelopment Agency. The Mayor's August 5, 1985 memorandum to the Finance Committee specified that the review should cover compliance with the City's Investment policy, safekeeping of securities and investment documentation. Our review of September 1985 Investment transactions revealed no exceptions to Policy requirements regarding types of instrument, maturity, issuer ratings and portfolio mix. However, during our review we noted that non-compliance with the City's Investment Policy may go undetected for as long as three weeks. This can occur because Finance staff do not maintain or utilize the MONEYMAX system, the City's primary tool for managing its investment portfolio, on a timely basis.

Audit Scope

The Treasury Division in the Department of Finance is responsible for administering four investment portfolios with an aggregate value of approximately \$700 million. As such, Treasury has broad responsibilities for administering City and the Redevelopment Agency investments. On a day-to-day basis, Treasury staff make all decisions for purchases and sales subject to the provisions of the April 2, 1985 City Investment Policy¹. Finance reports these investment activities to the Council in Monthly Investment Reports.

1) Attachment I is a complete text of the April 2, 1985 City Investment Policy.

The City Auditor has identified: 1) specific items in the City's Investment Policy which can be tested for compliance; and 2) attendant practices or written procedures which are implicitly required to insure compliance with the Policy. Audit staff developed detailed review sheets to test individual transactions for compliance with the Policy¹.

Audit staff did not test for compliance with all policy issues for the month of September 1985, due to limited time². Audit staff will audit additional compliance elements in subsequent monthly reviews.

We completed a 100% review of City and Redevelopment Agency purchases and sales during the month of September 1985, as shown below:

	<u>Purchases</u>	<u>Sales</u>
City Portfolio	28	2
Redevelopment Portfolio	18	

No Exceptions Noted

All purchases met policy requirements for type of instrument and maturity. In addition, all Commercial Paper and Time Deposit purchases met policy requirements for issuer rating. No exceptions to policy provisions for portfolio mix (percentage or dollar limits for categories of investments) were noted.

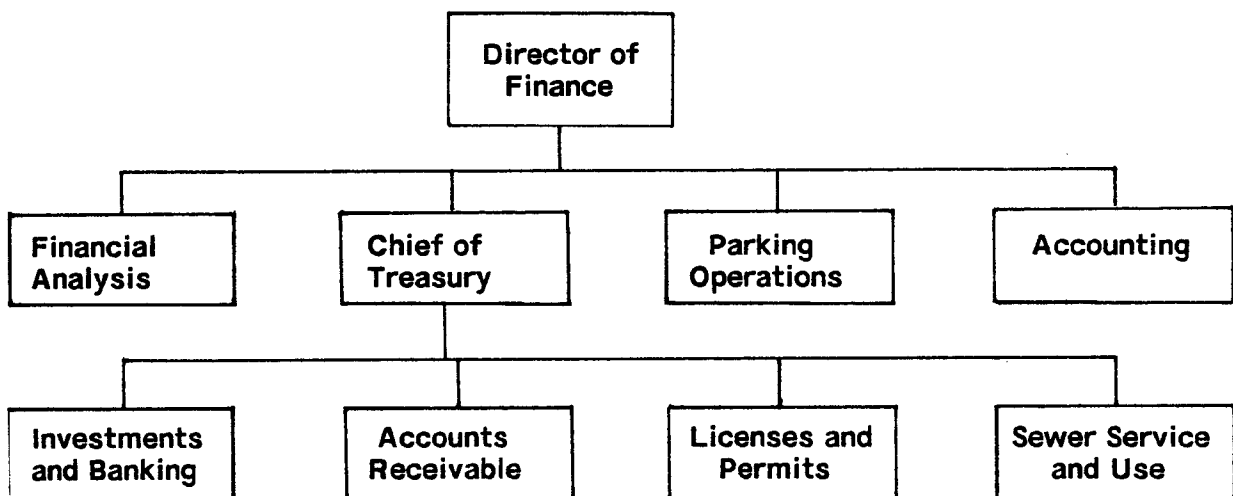
- 1) The City Auditor's review of compliance with the City Investment Policy is limited to the City and the Redevelopment Agency investment portfolios and does not include the Federated and the Police and Fire Retirement Systems' investment portfolios.
- 2) Attachment II is a listing of compliance questions used in the September, 1985, compliance review.

Non-Compliance Can Go Undetected

Currently, Finance subscribes to a computerized investment information system called MONEYMAX through Wismer and Associates. According to the MONEYMAX Users Guide, the system: "...is designed to maximize the effectiveness of cash management through the use of advanced data processing and communication technology. It serves as a valuable tool to the cash manager faced with difficult investment and cash flow decisions in today's complex financial markets..."

Our review revealed that Finance employees do not use the MONEYMAX system efficiently or effectively. We found that Treasury staff do not enter investment transaction data on a timely basis and do not run portfolio profiles on a current basis. At any given point in time, complete, accurate and timely information on the status of the City's or Redevelopment Agency's investment portfolio is not available. As a result, noncompliance with the City's Investment Policy can go undetected for as long as three weeks.

The Investment and Banking Section in the Treasury Division of the Department of Finance is primarily responsible for administering the City's four investment portfolios: the City; Redevelopment Agency; and Federated and Police and Fire Retirement Systems. The organizational location of the Investment and Banking Section is shown below:



Within the Investment and Banking Section there are seven full time positions. These positions and their primary City and Redevelopment Agency investment responsibilities are as follows:

<u>Position</u>	<u>City and Redevelopment Agency Investment Responsibilities</u>
Treasury Assistant	Manage investment of surplus funds for the City and Redevelopment Agency. Manage cash flow forecasting program. Review and evaluate bank, savings and loan and dealer financials. Administer investment record maintenance and reporting for City and Redevelopment.
Accounting Technician	Invest City and Redevelopment funds in absence of Treasury Assistant. Prepare schedules and graphs for City and Redevelopment Agency monthly inventory reports to City Council.
Principal Account Clerk	Backup for preparation of revenue vouchers for City and Redevelopment Agency investments. Backup for instructing banks to process City and Redevelopment Agency investment trades.
Account Clerk II	Invest City and Redevelopment Agency funds in the absence of Treasury Assistant/Accounting Technician Backup for computer postings (MONEYMAX) of City and Redevelopment Agency investments. Reconcile daily City and Redevelopment Agency banking and investment activity to verify accuracy of bank postings. Resolve Errors. Instruct banks to process investment trades for City and Redevelopment Agency. Maintain City and Redevelopment Agency investment records. (Responsible for processing investment transactions to insure all data is entered into MONEYMAX on a timely basis.

The Treasury Assistant is primarily responsible for determining the amount of idle or surplus funds available and initiating purchases or sales. The Treasury Assistant determines investible funds each morning by reviewing a daily bank account status report and adjusting the balance to reflect changes which are anticipated to occur that day. Investible funds, portfolio profile and market conditions influence decisions for purchases and sales which are initiated via telephone with various dealers, banks and savings and loans.

After a purchase or sale is negotiated, Treasury staff prepare a Confirmation document which is signed by the Chief of Treasury, Director of Finance and Chief of Accounting. Copies are distributed to the dealer and the safekeeping agent and to Treasury and Accounting Division files. Accounting prepares a Journal Voucher to enter purchase information into the General Ledger. Dealer confirmations, safekeeping agent reports and bank advices for cash disbursements (purchases) and receipts (sales) are received by Accounting for reconciliation.

After a transaction is completed, Treasury staff prepare an input log and enter all transaction data into MONEYMAX. Purchases and sales are entered based on Treasury confirmation documents. As sales, interest payments and maturities¹ with related interest are received, Treasury completes a revenue voucher. After completing the revenue voucher, Treasury Staff enter the transaction information into MONEYMAX. The Accounting Division audits the revenue voucher and transmits the records to Information Systems for keypunching into the City's General Accounting System. After the close of the month, Accounting reconciles the General Ledger to MONEYMAX reports and to bank statements.

1) Normally by direct wire to the City or Redevelopment Agency bank accounts.

During our review of September transactions, we identified that entry of transaction information into MONEYMAX can be delayed for as long a time as two weeks. Further, since Treasury runs reports on portfolio profiles only on a weekly basis, investment transactions may not appear in printed reports for at least another week. As a result, City Investment Policy exceptions regarding categories of investments may not be identified for as long as three weeks.

Investment Portfolio Information Is Not Current

Our review of September 1985 transactions revealed that from the date of a transaction to the date of its entry into the MONEYMAX system the following number of average working days elapsed:

- Seven workdays for purchases and sales
- Fifteen workdays for maturities and interest payments

In addition, we noted that Investment and Banking staff do not always produce important MONEYMAX input documentation and that they produce it inconsistently when they do. Finally, we noted that the Treasurer, Chief of Accounting and Director of Finance review investment transactions only on an after-the-fact basis and without benefit of a current and comprehensive perspective of the City's investment portfolios.

During September 1985, Investment and Banking staff purchased forty-six securities for \$283,371,858 and sold two securities for \$6,503,280. The elapsed time from the day these transactions occurred to their input into the MONEYMAX system varied from one workday to eleven workdays, with the average being approximately seven workdays. For example, a September 3, 1985 purchase transaction was: 1) not entered into MONEYMAX until September 17, 1985; and 2) not reflected on a MONEYMAX portfolio profile printout until September 24, 1985, twenty-one days after the transaction was completed. In our opinion such delays between transaction and recordation in MONEYMAX impair the Administration's ability to assure compliance with the City's Investment Policy.

According to Treasury staff: 1) September 1985 was not a representative month regarding timeliness of input into MONEYMAX because of staff absences; and 2) entries for October 1985 were more timely. However, a limited review of October transactions revealed that the timeliness of entry had not improved and, in fact, may have deteriorated. A complete analysis of October 1985 entries will be included in the next monthly compliance report.

A Case-In-Point

An Investment Policy exception which occurred in July 1985 illustrates the importance of constantly updating and monitoring MONEYMAX.

From July 15, to July 31, 1985 the Redevelopment Agency's investment portfolio contained a higher percentage of certain securities than the City's Investment Policy allows. In our opinion this situation could have been avoided if the composition of the investment portfolio had been monitored on a current basis. This situation is particularly pertinent in view of the fact that the noncompliance resulted from portfolio maturities, which should have been anticipated, and purchases, which could have been avoided.

The City's Investment Policy restricts total investments in Uninsured–Uncollateralized issues (Bankers Acceptances, Commercial Paper and Negotiable Certificates of Deposits) to 30% of the total portfolio holdings¹. This definition is from Section II.A of the Policy. An analysis of the Redevelopment Agency's July portfolio shows that Uninsured–Uncollateralized issues exceeded 30% from July 15, to July 31, 1985. **Exhibit I** is a summary of the Redevelopment Agency portfolio changes which caused Bankers Acceptances, Commercial Paper and Negotiable Certificates of Deposits to exceed 30% of the total portfolio from July 15 to July 31, 1985.

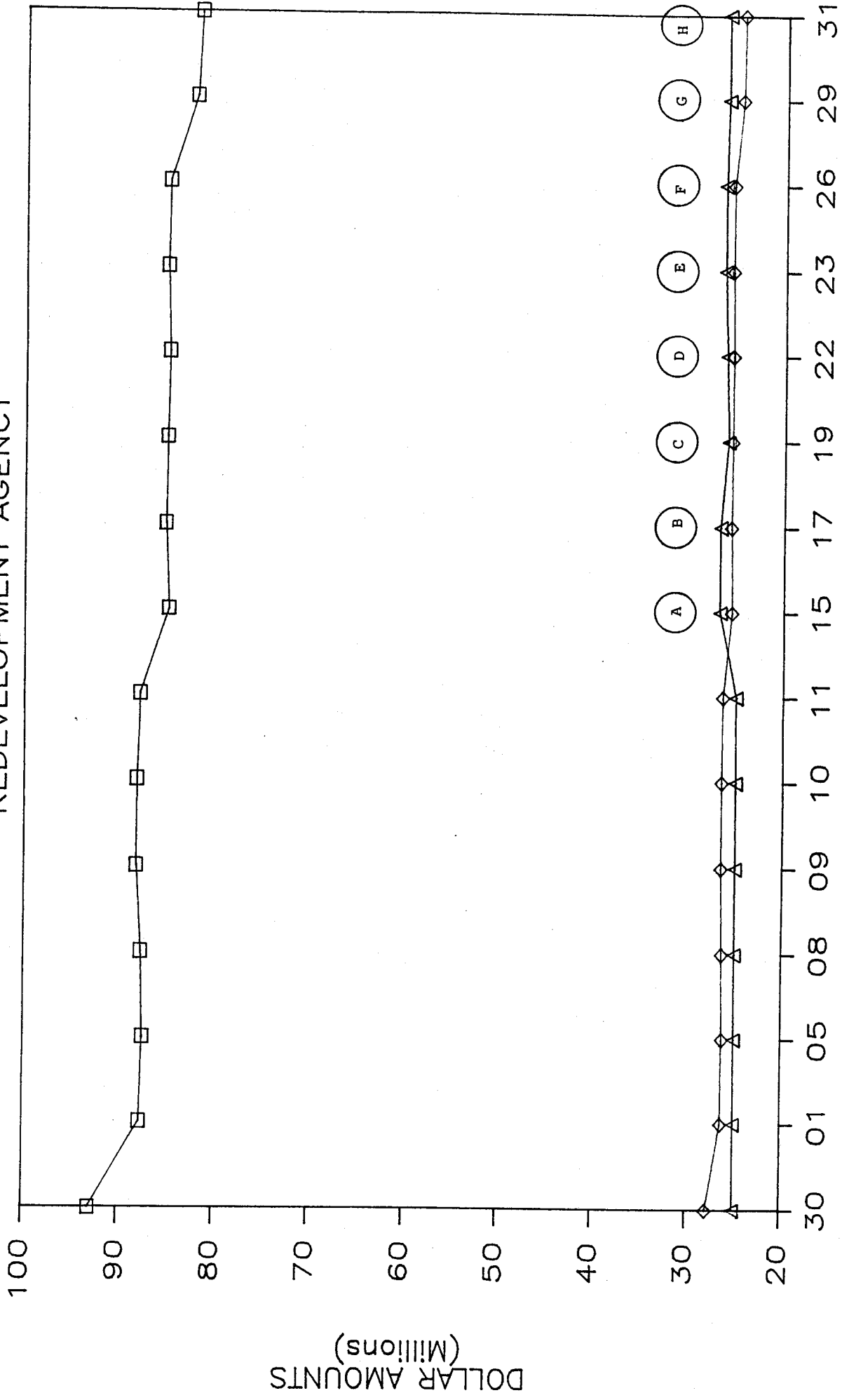
It should be noted that since the above incident occurred, Treasury staff now run portfolio profiles (the MONEYMAX Earned Interest Summary) on a weekly instead of monthly basis. However, since purchases, maturities and interest payments occur almost daily, weekly reports do not appear to be adequate given the dynamics of the investment portfolio and the dramatic fluctuations that can occur on a daily basis.

- 1) Bankers Acceptances are not appropriately described as Uninsured–Uncollateralized. Finance Department proposed changes to the Investment Policy will correct the Bankers Acceptances nomenclature.

INVESTMENT PORTFOLIO

EXHIBIT I

REDEVELOPMENT AGENCY



JULY 1985

PORTFOLIO

30% OF TOTAL

% NCD'S + CP

A - H Details on Page 2 of Exhibit I

Index to Page 1 Exhibit I		Transactions	Amount	New % NCD's and CP's
A	7/15/85	Maturity - FFCB Disc. Note	(4,981,263.88)	
		Purchase - CP/Disc	1,822,349.19	
		Deposit - LAIF	250,000.00	
				31.51%
B	7/17/85	Purchase - FFCB Disc. Note	334,665.00	31.39%
C	7/19/85	Maturity - FFCB Disc. Note	(2,192,762.00)	
		Maturity - CP/Disc.	(745,531.25)	
		Purchase - Repo	2,800,000.00	
				30.57%
D	7/22/85	Maturity - CP/Disc.	(1,822,349.19)	
		Maturity - FFCB Disc. Note	(334,665.00)	
		Purchase - NCD	2,000,000.00	
		Purchase - CP/Disc.	199,741.67	
				30.83%
E	7/23/85	Purchase - CP/Disc	199,741.67	30.99%
F	7/26/85	Maturity- Repo	(2,800,000.00)	
		Purchase - Repo	2,600,000.00	
				31.07%
G	7/29/85	Maturity - Repo	(2,600,000.00)	
		Maturity - CP/Disc.	(199,741.67)	
				31.88%
H	7/31/85	Withdrawal - LAIF	(460,000.00)	32.06%

Abbreviations

DISC = Discount
 NCD = Negotiable Certificate of Deposit
 CP = Commercial Paper
 FFCB = Federal Farm Credit Bank
 LAIF = Local Agency Investment Fund
 REPO = Repurchase Agreement

Note: The encircled letters above A through H correspond to the encircled letters shown in the Investment Portfolio Line Graph. (See Page 1 of Exhibit I)

Important Documentation Not Always Produced

Treasury connects to the MONEymax central system via telephone lines. Occasionally, transactions are entered via direct link. Usually, data is entered locally to the IBM PC disc and then transferred via telephone line to the central system for permanent storage. When data transfer is completed, the central system will produce a "batch" report¹ verifying the input, provided Treasury staff turn on the local printer to receive the report. Because staff do not always make sure the printer is ready and because disconnections occur on the telephone line, machine logged and dated "batch" reports are not always printed. Staff can locally reproduce IBM PC screen input. However, this does not verify data transfer or date of entry, nor does it provide a record of machine and telephone time to verify against billings.

"Batch" reports must be received from the central system and verified against input documents in order to insure that data transfer is completed and input is accurate. Immediate transfer of accurate transaction data to the central system is essential because MONEymax: 1) is Treasury's only means of accounting for investments; 2) provides the only report on portfolio profile; and 3) is the only source for storage and security backup of investment information.

Based upon interviews with Finance staff it appears that staff do not fully understand how to use the MONEymax system or the importance of constantly updating information on investment activity. While individual staff members understand

- 1) "Batch" report for the purposes of this report means any MONEymax generated report which verifies input into the system.

parts of the system, no one person has a full understanding of the system. This creates a knowledge vacuum which is exacerbated when staff absences occur. The MONEYMAX Users Manual is lengthy and technical and Finance's written procedures for the use of MONEYMAX are not sufficient to assist staff in using the system.

Untimely Management Review

The Treasurer, Finance Director and Chief of Accounting are aware of purchases and sales only after-the-fact when they sign confirmation documents. This frequently occurs several days after a transaction has been completed. In addition, these officials do not routinely receive reports on portfolio profile. Normally, these officials review the portfolio profiles only when the Monthly Report is prepared for Council. This occurs approximately twenty days after the month's activities have closed. As a result, policy exceptions which are "balanced out" at the end of the month will not be reported and will not be detected by upper management unless Treasury staff voluntarily report it.

CONCLUSION

The portfolio profile for City and Redevelopment Agency investments is not adequately monitored or reported. The MONEYMAX Earned Interest Summary, the only report on portfolio profile currently utilized by Treasury, is only run weekly and is not updated as purchases, sales, maturities and interest payments occur. Entry of transaction information into MONEYMAX ranges from one to eleven working days (from transaction to entry) with the average length of time being seven working days. In addition, the MONEYMAX system is not fully understood or utilized by Finance staff. The Treasurer, Chief of Accounting, and Finance Director are frequently made aware of purchases and sales several days after-the-fact and are not routinely provided with reports on the portfolio profile. As a result, incidents of noncompliance with the City's Investment Policy can go undetected for as long as three weeks.

RECOMMENDATIONS

It is therefore recommended that:

Recommendation #1

Treasury staff utilize MONEYMAX in managing the portfolio and making investment decisions by: running a portfolio profile daily, or each day purchases, sales or maturities occur; and using the portfolio profile report in making investment decisions. (Priority 1)

Recommendation #2

Treasury staff insure that entry into MONEYMAX is timely and accurate by: entering transaction data on the date that the transaction occurs; running machine numbered, logged and dated batch reports for all entries; and reviewing batch reports for accuracy. (Priority 1)

Recommendation #3

Finance enhance staff's ability to utilize MONEYMAX by: providing comprehensive training for employees in the use of MONEYMAX and; preparing a simplified instruction manual on the use of MONEYMAX for Finance employees. (Priority 2)

Recommendation #4

Treasury staff advise Finance management of portfolio status on a timely basis by distributing a copy of the daily portfolio profile report in the Recommendation #1 to the Treasurer, Chief of Accounting and the Finance Director for signature. (Priority 1)

REVENUE NOT PROMPTLY RECORDED, POLICY COMPLIANCE INCOMPLETE AND CONTROLS INSUFFICIENT DUE TO INADEQUATE PROCEDURES

Revenue Not Promptly Recorded

During the month of September 1985, Revenue Vouchers for maturities, interest payments and sales were not prepared on the same day the funds were received. For example, from September 3 to September 20, 1985, approximately \$114.5 million in revenues from maturities and interest were received in the City's bank account. Investment and Banking staff did not prepare Revenue Vouchers for these revenues until September 24, 1985, as much as three weeks after the fact. Overall, for the month of September, an average lag time of nine working days occurred from receipt of funds to preparation of revenue vouchers. The significance of this delay is that until Revenue Vouchers are prepared: 1) the revenues will not be recorded in the City's General Ledger; and 2) investment information, such as sales, gains or losses on sales and interest other than maturities, will not be input into the MONEYMAX system (See page 7).

According to Treasury staff, the observed September, 1985 delays were caused by 1) staff shortages due to vacation and illness, and 2) staff assigning a higher priority to recording non-investment revenue than investment revenue. Staff also stated that October revenue vouchers were prepared on a more current basis. However, a limited review of October revenue vouchers indicated a continued delay from receipt of funds to preparation of revenue vouchers. A complete review of the timeliness of recording October revenues will be forthcoming in next month's compliance report.

Compliance Incomplete

Cash Flow

Compliance with Policy provisions for safety, liquidity and yield requires use of accurate cash flow projections. A MONEYMAX software package produces a cash flow forecast using historical information from the City's General Accounting System. This automated cash flow is updated monthly. During the month, Treasury updates this projection on an as-received basis using written and verbal information from numerous sources such as Accounting Division payroll and vendor check schedules, or notification of payment dates for State or County revenue sharing payments. Treasury staff input some update information into MONEYMAX, while only making manual notations for other update information. Staff does not date either MONEYMAX entry or the manual notations. Treasury staff use this cash flow information and the bank account status report each day to determine the daily investible balance.

Based upon available documentation, audit staff could not determine what revenue and expenditure information was used by Treasury staff each day to determine investible funds. For example, hand prepared notations which supplement computer generated reports are not usually retained or traceable to source documents. It is also not possible to ascertain portfolio profile information used on a given day because the Earned Interest Summary is not run daily and retained in the files.

In our opinion, Treasury should document the factors used in making their investment decisions. Such documentation may prove to be critical in a post review of the investment program by outside parties.

Prequalification

Prequalification of dealers did not meet all policy requirements. Treasury staff have interpreted the policy requirements to apply only to dealers and not to banks, savings and loans, or to issuers. Of the six dealers involved in September transactions, our compliance review revealed the following:

	Compliance With Policy	
	# Yes	# No
1. Reports to Market Report Division of Federal Reserve?	6	
2. Not on prohibited list?	6	
3. Acknowledged City Investment Policy?	4	2
4. Financial Statements?		
a) Filed?	2*	4
b) If filed:		
° Include Balance Sheet?	2	
° Include Profit and Loss Statement?	2	
° Are current?	2	
° Reviewed by Finance?	2	
5. Has Service Agreement with City?		6

*Statement of Financial Condition

Of the three banks and savings and loans directly settling purchases or sales for the City in September, 1985: two had filed an acknowledgment of the City's Investment Policy; one had filed financial information; and none had a Services Agreement with the City.

The banks holding the City and Redevelopment bank accounts serve as the Safekeeping Agents for these portfolios. Specific Safekeeping Agreements have not been executed. Finance advises that safekeeping arrangements are a part of the overall Banking Services Agreements with these institutions.

Sales

The City's Investment Policy provides for sales in the event of unanticipated cash needs and prohibits "trading". While sales for other reasons are not specifically prohibited or permitted, the intent to avoid unnecessary sales seems clear. Yield, although secondary to safety and liquidity, is a stated policy objective.

In reviewing September transactions, we noted two sales occurring in the City portfolio on September 26, 1985. On this date two Negotiable Certificates of Deposit (NCD) with Par Values of \$1 million and \$5 million and effective yields respectively, of 11.80% and 11.10% were sold. Audit staff questioned these sales because (1) the two instruments sold were among the highest yielding NCD's in the portfolio; and (2) the sales were not necessary to meet unanticipated cash needs.

In addition, comparing the yield of these two NCD's to the yield of other instruments purchased by Treasury during September 1985, we estimated that the City lost approximately \$677,590 in interest income¹ by not holding these instruments to maturity.

- 1) The maturity dates of the \$1 million and \$5 million NCD were November 30, 1988 and April 6, 1989, respectively.

Finance explained that these sales were initiated at the direction of the Internal Investment Committee which is comprised of the Assistant City Manager, OMB Director, Finance Director and Treasurer. According to Finance, the Committee's instructions were to begin to purge the portfolio of purchases made prior to the inception of the Investment Policy which:

- ° Had maturity dates greater than three years from the date of purchase;
- ° Violated the City's new South African Policy; and/or
- ° Were issued by an institution which does not currently meet Policy rating or location requirements.

The committee also directed that no sales should take place at a loss.

It should be noted that after the above sales were made, the portfolio still contained instruments which: 1) were purchased prior to the Investment Policy; 2) had lower effective yields; 3) had longer maturities; and 4) had ratings and locations not in consonance with Policy requirements. According to Finance the subject NCD's were selected for sale because they could be sold at a gain and that other instruments will also be sold when it is profitable to do so.

Finance does not require Treasury to document reasons for sales or to verify prior approval of upper management. In our opinion such documentation should be maintained in the event of subsequent inquiry by an outside party.

Controls Insufficient

An important control procedure for the investment program is Accounting Division reconciliations of investment transactions. According to published procedures, Dealer Confirmations, Safekeeping Reports and Bank Advices should be reconciled as received to Accounting's copy of the Confirmation. The Accounting Division should reconcile the General Ledger to MONEYMAX and to the bank statement monthly. Audit staff could not verify the timeliness of reconciliations based on records maintained.

Accounting has experienced difficulty with monthly General Ledger reconciliations to MONEYMAX. The Accounting Division is planning procedural improvements and additional training for employees in MONEYMAX.

CONCLUSIONS

Based on our review, we have determined that: (1) revenues are not promptly recorded; (2) procedures for prequalification of financial institutions and for safekeeping are not fully established; (3) after the fact review of day-by-day cash flow determinations is not possible; (4) reasons for sales are not documented and (5) reconciliation procedures need improvement.

As a result, the General Accounting System does not contain up-to-date revenue information; compliance with certain policy provisions is either incomplete or impossible to verify; and internal controls are not functioning on a regular basis.

RECOMMENDATIONS

It is therefore recommended that:

Recommendation #5

Treasury staff prepare revenue vouchers for maturities, sales and interest payments on the date funds are deposited or payment is received. (Priority 1)

Recommendation #6

Treasury staff maintain documentation to verify information used each day in making investment decisions, including the daily portfolio profile report and all cash flow information. (Priority 2)

Recommendation #7

Finance complete procedures regarding prequalification of financial institutions. (Priority 1)

Recommendation #8

Treasury document reasons for sales. (Priority 2)

Recommendation #9

Accounting complete improvements in reconciliation procedures. (Priority 2)

CITY OF SAN JOSE—MEMORANDUM

TO Gerald Silva
City Auditor
SUBJECT FINANCE DEPARTMENT'S RESPONSES TO RECOMMENDATIONS.
INVESTMENT POLICY COMPLIANCE AUDIT

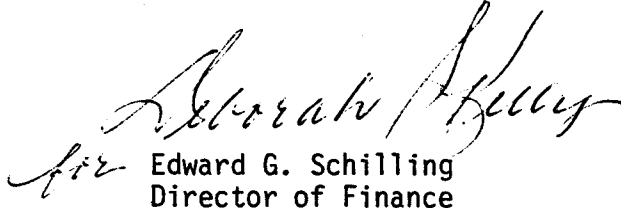
FROM Edward G. Schilling
Director of Finance
DATE

APPROVED

DATE

Attached you will find the Finance Department's responses to the nine (9) recommendations made by Audit staff in connection with the Investment Policy Compliance Audit for the month of September, 1985. Staff has been most anxious to comply with the Investment Policy in all of its aspects and extends its gratitude for your department's suggestions as to how the operating systems might be improved in order to ensure compliance. The dialogues connected with Policy interpretation are always going to be important elements of feedback and clarification. Overall, staff feels the audit program will prove to be a healthy exercise for all concerned.

Thank you for providing this opportunity to respond to the audit recommendations. We look forward to cooperating further with your staff as we continue to strive to meet the highest standards of performance.


for Edward G. Schilling
Director of Finance

EGS:bm

cc: Emily Harrison
Deborah Kelly

RECOMMENDATION #1

Effective November 1, 1985, Treasury staff will produce portfolio profiles on a daily basis through Moneymax. The specific report to be used as the reference for this particular information is GSIOT (Investments Outstanding Report by Type of Security).

RECOMMENDATION #2 AND RECOMMENDATION #5

Effective November 1, 1985, Treasury staff will implement the following procedures for purchases and /or sales:

1. After the day's investment transactions have been authorized, the rough drafts of the investment confirmations will be prepared.
2. The input for the Moneymax module will be executed within the last 3 hours of the same working day.
3. The reports to be run after the master files have been updated will be produced by the end of the same working day. These reports will include: (a) logged and dated input verification (formerly called batch reports), (b) general journal, (c) exception report, and (d) investments outstanding by type. Input verification will be reviewed by the operator. All of the reports will be reviewed by the Treasury Assistant before forwarding them.
4. With the above mentioned reports in hand, the Moneymax system's line number will be assigned to the rough draft of the investment confirmation.
5. The typed confirmations, including the line number, will be submitted to the Chief of Treasury within 24 hours of the investment transaction. The confirmations will then be routed to the Director of Finance and the Chief of Accounting.
6. Signed copies of the confirmations will be distributed to the safekeeping bank, the dealer, Accounting and Treasury. Effective November 1, 1985, Treasury staff will implement the following procedures for maturities and/or interest income:
 - (a) TDIS and GSIS (income summary reports) will be run at the beginning of each month with a possible interim report generation, if necessary, to track expected versus received income.
 - (b) It will be verified through the detailed bank activity report that the interest income was credited to the account. The same will be verified for special revenue and maturities.
 - (c) The RV's will be prepared the day this verification is complete (normally the day following the deposit). The bank's report will be attached as documentation.

(d) After the RV is prepared, the RV information will be noted on the Treasury copy of the confirmation for the original purchase of that particular security, and a Moneymax input sheet will be prepared for interest or maturity information.

(e) The input sheet and the Treasury copy of the confirmation will be submitted to the operator for data entry into the Moneymax module.

RECOMMENDATION #3

Four days of on-site training have been provided by Wismer Associates since the end of August. Two days were devoted to implementing the cash flow forecast module. Two days were allocated for a system overview and accounting-related issues. Wismer personnel have provided updated Users Manuals which have enhanced all users' understanding of the system, even on a nationwide basis. Wismer provides consistent and responsive support for special requests and operational difficulties. It is recognized by Treasury personnel that training resources are as close as the telephone.

Treasury staff has set a target date of January 1 1986, for completion of an instruction manual.

RECOMMENDATION #4

The Chief of Treasury will review the portfolio status on a daily basis using the GSIOT report (investments outstanding by type). Investment transactions cannot be regularly reviewed before the fact though discussions about strategy do accomplish this on a general basis. The markets shift from moment to moment, and decisions to buy or sell very specific securities are executed over the telephone within a matter of seconds. It is the function of the Investment Policy to set the parameters within which these decisions can be exercised. Therefore, by definition, monitoring to verify compliance occurs after the fact.

To supplement the review process, the daily exception report (see Recommendation #2) will be distributed to the Chief of Accounting and the Director of Finance. The Chief of Treasury will keep the daily GSIOT report available for inspection at all times. These are the most cost effective reports to run on a daily basis. The EIS (earned interest summary) will continue to be run on a weekly basis since it costs nearly twice as much to run as the others. It will be distributed to the Chief of Treasury, the Chief of Accounting and the Director of Finance.

RECOMMENDATION #6

The State of California and occasionally the County of Santa Clara send cash inflow information in writing. The Accounting Division provides a payroll log. All other information about cash flow is provided by telephone or verbal notification, e.g. bond redemption requirements, bond proceeds expected, wire transfers for tax receipts, and vendor checks to be released. To the extent that it makes sense to add notes regarding these contacts to the daily cash flow sheet which already reveals essentially the same information, the additional documentation will be attached. If outside divisions or agencies are to be required to confirm all their telephone calls or visits in writing, it is feared that this will impede future communication so vital to cash management.

RECOMMENDATION #7

Treasury staff has targeted December 1, 1985, as the date by which letters will be sent to all dealers and banks requesting the latest set of financial statements available for their respective firms. It is recognized that this file must be maintained on a timely basis.

The preparation of a service agreement has been delayed due to staff shortages in the Attorney's Office and the Treasury Division. Treasury staff is currently collecting sample repurchase agreements and has targeted January 1, 1986, as the deadline for a completed service agreement. This project is far more complex than originally anticipated, for great care must be exercised in writing an acceptable legal document, in part, because cities have not typically used their own service agreements in working with security dealers.

Within the package of banking services currently provided for the City and Redevelopment Agency bank accounts, separate custodial facilities for safekeeping have been included. Treasury staff will request the banking institutions involved to produce written confirmations attesting to same.

RECOMMENDATION #8

Effective November 1, 1985, the Banking and Investment staff will obtain written authorization prior to selling particular types of instruments, specific securities, or an undesirable class of maturity dates. The authorization sources may include the Manager's Office, the Finance Director, or the Chief of Treasury. The date upon which these sales are to be executed will be determined by the Treasury staff since day to day marketability is not easily anticipated. The cash flow sheet for the day upon which a sale is executed will contain a brief justification for the sale and/or a reference to the source of authorization which will be attached. The Chief of Treasury will sign off on the cash flow sheet for that day. The other Finance management personnel will sign off through the typed confirmation.

Audit staff has questioned the wisdom of two sales which occurred in September primarily because the securities had attractive yields. Treasury staff has not interpreted the guidelines to emphasize yield above safety and liquidity, nor has it been directed to do so. Though these sales were not required to meet unanticipated cash needs, they were executed as part of what is expected to be an ongoing effort to improve the quality of the portfolio. The Crocker NCD was sold because the issuing bank has South African connections and the NCD exceeded the recommended maturity spectrum under the guidelines. The First National Bank of Chicago NCD had a poor credit rating and also extended somewhat beyond the suggested maturity dates provided under the Investment Policy.

Audit staff estimates the interest income lost as a result of these sales to be \$677,590. That figure by definition has not been reduced by the gain on the sales (\$135,638), nor is it particularly meaningful in light of the Investment Policy requirements. It is evident that the drafting and approval process associated with the Policy incorporated a willingness to forego significant amounts of future interest income as the price to be paid for portfolio quality. Staff's interpretation of the Policy which permits upgrading the portfolios without incurring losses of principal is intended to minimize the effect of foregoing interest income.

Audit staff was present during the Private Sector Investment Panel meeting when the conservative direction of the program's "pendulum" was discussed. The Panel went even further to recommend that only NCD's with even more stringent credit qualifications be permitted in the City's portfolio. The implications for future sales were discussed and affirmed during the November 4, 1985, Finance Committee meeting. Practically speaking, the form of a given document such as the City's Investment Policy must be tempered by the substance of its underlying intent as well as the dynamics of the current environment.

RECOMMENDATION #9

The following steps have been taken to implement this recommendation:

1. Effective November 1, 1985, all investment confirmations will have the line number on them when they come down to Accounting for the Chief of Accounting's signature. Accounting's copy will be separated off at that time, to expedite the reconciliation process and assure that all approved transactions are recorded.
2. Effective November 1, 1985, Accounting will receive copies of all month-end reports the day after the end of each month, rather than having to wait until the Investment Report is prepared and published.

3. Accounting will reconcile the General Ledger to Moneymax as well as to the Investment Report on a monthly basis.
4. Accounting will separate out all interest and related accounts (amortization, gain/loss) into a separate sub-account group within the Depositor's Trust Fund, to assist in reconciliation.
5. Training of key accounting personnel in the Moneymax system took place October 29, 1985. Two complete sets of Moneymax User's Guides have been anticipated on an as-needed basis, presumably coordinated through the Chief of Treasury.

The following steps are recommended to improve the reconciliation process:

1. Preparation of detailed reconciliation procedures: additional personnel capabilities required.
2. Expedited reconciliation of Bank Advices and Safekeeping Advices to Investment Confirmation: required staff time currently not available.
3. Expedited reconciliation of bank statements to General Ledger and various confirmations: required staff time currently not available.

5145F/0263F

I. STATEMENT OF OBJECTIVES

Temporarily idle or surplus funds of the City of San Jose shall be invested in accordance with principles of sound treasury management and in accordance with the provisions of California Government Code Sections 53600 et seq., the Charter of the City of San Jose, the Municipal Code, and this Investment Policy.

A. Overall Risk Profile

The basic objectives of San Jose's investment program are, in order of priority:

1. Safety of invested funds;
2. Maintenance of sufficient liquidity to meet cash flow needs; and,
3. Attainment of the maximum yield possible consistent with the first two objectives.

The achievement of these objectives shall be accomplished in the manner described below.

1. Safety of Invested Funds

The City shall insure the safety of its invested idle funds by limiting credit and interest rate risks. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of portfolio securities will fall due to an increase in general interest rates.

a. Credit risk will be mitigated by:

- 1) Limiting investments to the safest types of securities;
- 2) By pre-qualifying the financial institutions with which it will do business;
- 3) By diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the City; and
- 4) By monitoring all of the City's investments on a daily basis to anticipate and respond appropriately to a significant reduction of creditworthiness of any of the depositories.

CITY OF SAN JOSE INVESTMENT POLICY

b. Interest rate risk will be mitigated by:

- 1) Structuring the City's portfolio so that securities mature to meet the City's cash requirements, thereby avoiding the need to sell securities on the open market prior to their maturation; and
- 2) Investing primarily in shorter-term securities, unless it is anticipated that long-term securities can be held to maturity without jeopardizing liquidity requirements.

c. The physical security or safekeeping of the City's investments is also an important element of safety. Detailed safekeeping requirements are defined in Section III of this Policy.

2. Liquidity

The City's investment portfolio must be structured in a manner which will provide that securities mature at the same time as cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The specific percentage mix of different investment instruments and maturities is described in Section II of this Policy.

3. Yield

Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. While it may occasionally be necessary for the City to sell a security prior to maturity to meet unanticipated cash needs, this Policy specifically prohibits trading securities for the sole purpose of realizing trading profits. Specifically, "When, as, and if issued" trading is prohibited.

B. Time Frame for Investment Decisions

The City's investment portfolio shall be structured to provide that sufficient funds from investments are available every month to meet the City's anticipated cash needs. Subject to the safety provisions outlined above, the choice of investment instruments and maturities shall be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. As a general rule, the average maturity of the investment portfolio will not exceed 18 months, and no investment will have a maturity of more than three years from its date of purchase.

CITY OF SAN JOSE INVESTMENT POLICY

C. Definition of Idle or Surplus Funds

- Idle or surplus funds for the purpose of this Policy are all City funds which are available for investment at any one time, including the estimated checking account float, excepting those minimum balances required by the City's banks to compensate them for the cost of banking services. This Policy also applies to the idle or surplus funds of other entities for which City of San Jose personnel provide financial management services.

D. Limitations on Reverse Repurchase Agreements

Under no circumstances shall the City borrow funds through reverse repurchase agreements for the purpose of financing the acquisition of securities which the City does not intend to bring into its portfolio. Except as otherwise authorized by the City Council, the use of reverse repurchase agreements will be limited to those occasions where unanticipated, short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security prior to its maturity. (For example, if a specific cash requirement precedes the maturity of a security which had been intended to meet that requirement, it may be advantageous to initiate a reverse repurchase agreement pledging the security as collateral, rather than selling the security prior to its maturity. Proceeds from the maturity of the security would then be used to close out the reverse repurchase agreement.) The term of any reverse repurchase agreement shall be limited to one month; the amount of the agreement may not exceed \$25 million, and only a single agreement shall be in effect at one time. Prior written approval by the City Manager or his designee is required to enter into a reverse repurchase agreement, and the fact that such a reverse repurchase agreement has been executed will be reported to the City Council.

II. INVESTMENTS

This section of the Investment Policy identifies the types of instruments in which the City will invest its idle funds.

A. Allowable Securities

The City may invest temporarily idle funds through banks, savings and loans, securities dealers, and the State Local Agency Investment Fund (LAIF).

CITY OF SAN JOSE INVESTMENT POLICY

The following table summarizes the authorized investment instruments, and applicable limitations on each.

<u>TYPE</u>	<u>LOCATION</u>	<u>DOLLAR LIMITS</u>	<u>MATURITY</u>
1. General Instruments			
Local Agency Investment Fund	California	Maximum \$5mm	On demand
Insured deposits - Banks and S&L's	San Jose ⁽¹⁾ Area	NTE ⁽²⁾ \$10mm	NTE 3 Years
U.S. Treasury Bonds Notes and Bills	-	No Limit	NTE 3 Years
U.S. Government Agency Issues	-	No Limit	NTE 3 Years
2. Uninsured - Collateralized			
Repurchase Agreements	Banks and Reporting Dealers	No Limit	NTE 10 Days
Reverse Repurchase Agreement ⁽³⁾	Banks and Reporting Dealers	NTE \$25mm	NTE 30 Days
Time Deposits-Banks	San Jose Area) 30%	NTE 18 Months
Time Deposits-Savings & Loan	San Jose Area		NTE 18 months
3. Uninsured - Uncollateralized			
Bankers Acceptances	Domestic U.S.) 30%	NTE 6 Months
Commercial Paper	Domestic U.S.		NTE 6 Months
Negotiable Certificates of Deposit	Domestic U.S.		NTE 6 Months

(1) Exceptions to this limit may be required to maintain deposits in minority-owned banks consistent with San Jose's voluntary participation in HUD's Minority Banking Program.

(2) NTE = Not to exceed

(3) Subject to limits in Section I. D. of this Policy.

CITY OF SAN JOSE INVESTMENT POLICY

4. No more than 10% of the total portfolio shall be invested in the issuances of any single institution other than securities issued by the U.S. Government and its affiliated agencies. Additionally, no more than 5% of the total portfolio shall be invested in the uninsured-uncollateralized issuances of any single institution.

B. Qualification of Brokers, Dealers and Financial Institutions

Aside from LAIF, insured deposits, and U.S. Treasury and Government Agency issues, investments shall be placed only in those instruments and institutions rated favorably by the Keefe, Bruyette and Woods Bank and Savings and Loan Rating Service or Moody's Commercial Paper Record. For Banker's Acceptances and Negotiable Certificates of Deposit, depositories shall be limited to banks and savings and loans rated "B" or better, and selected major California banks rated "C" or better. Except for insured deposits in California banks and savings and loans, City investment transactions will be conducted only with institutions meeting the tests described above, and/or with dealers from the list of Government Security dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York. Except for investment in Banker's Acceptances and Negotiable Certificates of Deposit, the City will limit its investments in banks and savings and loans to those institutions maintaining offices in the San Jose area.

The purchase of Government Agency securities will be limited to issues of the Federal Farm Credit Bank, the Federal Home Loan Bank, and the Federal National Mortgage Association. Other government agency securities lack the liquidity which the City's portfolio requires, and are therefore inappropriate for purchase.

The California Government Code restricts cities to investing in commercial paper of the highest rankings provided for by Moody's Investment Service or Standard and Poor's. Issuing corporations must be organized and operating within the United States and have total assets in excess of \$500,000,000, and an "A" or higher rating for the corporation's own indebtedness other than commercial paper. The City may not hold more than 10% of an issuing corporation's commercial paper.

C. Collateralization Requirements

All repurchase agreements and all time deposits over \$100,000 shall be collateralized. The collateral for repurchase agreements shall be U.S. Treasuries or Government Agency issues, if available, whose market value at the time of purchase is equal to 100 percent of the repurchase agreement's face value. For other than overnight investments the required collateral for repurchase agreements shall be marked to market on a daily basis and maintained at an amount equal to 100 percent of the repurchase agreement's face value. Alternatively, the amount of collateral provided for the repurchase agreement may be set at a value sufficiently in excess of the repurchase agreement's face value to protect against a sudden decrease in the collateral's value.

CITY OF SAN JOSE INVESTMENT POLICY

Uninsured time deposits with banks and savings and loans shall be collateralized in the manner prescribed by law for depositories accepting municipal investment funds.

D. Pre-formatted Wire Transfers

Wherever possible, the City will use pre-formatted wire transfers to restrict the transfer of funds to pre-authorized accounts only. When transferring funds to an account not previously approved, the bank is required to call back a second employee for confirmation that the transfer is authorized.

E. Requirement for Financial Statements

Each bank, savings and loan and security dealer, otherwise qualified under the provisions of this policy, who wishes to do business with the City shall submit a copy of its latest financial statement to the City including a balance sheet and profit and loss statement. After a review of the financial statement and all other relevant information, the City will determine whether a service agreement should be executed with the institution based on the standards outlined in this Policy. The City requires that an agreement for services be executed prior to entrusting its funds to any dealer or financial institution, and that up-to-date financial statements be sent to the Director of Finance upon their issuance.

F. Notice to Dealers

The City shall annually send a copy of the current edition of this Investment Policy to all institutions which are approved to handle City of San Jose investments. Receipt of the policy shall be acknowledged in writing within thirty days.

III. SAFEKEEPING OF SECURITIES

A. Safekeeping Agreement

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure time deposits or repurchase agreements.

B. Handling of City-Owned Securities and Time Deposit Collateral

All securities owned by the City shall be held by its safekeeping agent, except the collateral for time deposits in banks and savings and loans. The collateral for time deposits in savings and loans is held by the Federal Home Loan Bank. The collateral for time deposits in banks is held in the City's name in the bank's trust department (if a safekeeping agreement has been executed) or, alternatively, in the San Francisco Federal Reserve Bank.

CITY OF SAN JOSE INVESTMENT POLICY

C. Handling of Repurchase Agreement Securities

The securities which serve as collateral for repurchase agreements with banks may be held in the issuing bank's trust department, provided that a master trust agreement has been executed insuring fiduciary separation of these assets from other bank assets. The securities which serve as collateral for repurchase agreements with dealers must be delivered to a third-party custodian with which the City has established a safekeeping agreement.

D. Security Transfers

The authorization to release City securities will be telephoned to the appropriate bank by a Treasury staff member other than the person who initiated the transaction. A written confirmation outlining details for the transaction and confirming the telephoned instructions will be sent to the bank within 24 hours.

E. Verification of Security

The collateral being held in safekeeping for the City will be verified in writing and examined on a surprise basis during the year. Verification of collateral will be part of the City's annual independent audit.

IV. STRUCTURE AND RESPONSIBILITY

This section of the Investment Policy defines the overall structure of the investment management program.

A. Responsibilities of the Finance Department

The Finance Department is charged by the City Charter with responsibility for maintaining custody of all public funds and securities belonging to or under the control of the City, and for the deposit and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and ordinances.

B. Responsibilities of the Finance Director

The Finance Director is appointed by the City Manager and is subject to his or her direction and supervision. The Finance Director is charged with responsibility for the conduct of all Finance Department functions, including the custody and investment of City funds. The Finance Director is further responsible for the duties and powers imposed by the general laws of the State of California upon City Treasurers, City Assessors and City Tax Collectors.

CITY OF SAN JOSE INVESTMENT POLICY

C. Responsibilities of the City Manager

The City Manager is responsible for directing and supervising the Director of Finance. He or she is responsible further to keep the City Council fully advised as to the financial condition of the City.

D. Responsibilities of the City Auditor

The City Auditor is charged by the City Charter with a continuing post audit of all the fiscal transactions of the City including, but not limited to the examination and analysis of fiscal procedures and the examination, checking and verification of accounts and expenditures. A review of the City's investment program is a part of the responsibility described above.

E. Responsibilities of the City Council

The City Council shall consider and adopt a written Investment Policy. As provided in that Policy, the Council shall receive, review, and accept monthly Investment Reports.

V. REPORTING

The Director of Finance shall prepare a monthly Investment Report, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and significant transactions made over the past month. This management summary will be prepared in a manner which will allow the City Manager and City Council to ascertain whether investment activities during the reporting period have deviated from the City's Investment Policy.

The monthly Investment Report will include the following:

- A. Trend of average portfolio maturity;
- B. Maturity aging by type of investment;
- C. Percentage mix of portfolio by type of investment including a listing of individual securities held at the end of the reporting month;
- D. Portfolio turnover rate and trend;
- E. Separation of realized trading gains or losses from interest received on trading activity; (Since the City is not involved in active trading, this will occur only when a security must be sold prior to maturity because of unanticipated cash needs.)
- F. Reasons for and amounts of violations or exceptions to the investment policy during the month being reported on, as well as prior violations or exceptions which have not yet been corrected;
- G. Trend of rate of return on investments;
- H. Unrealized gain or loss resulting from appreciation or depreciation in the market value of securities;

CITY OF SAN JOSE INVESTMENT POLICY

- I. Aggregate commitments to purchase securities or make other payments to dealers in a manner to permit adequate cash need forecasting;
- J. Interest cost and interest earnings from reverse repurchase agreement transactions.
- K. All investment transactions occurring during the month whether or not the transaction has been fully settled.

VI. REVIEW OF INVESTMENT MANAGEMENT

A. Policy Exceptions

While this Policy prescribes various maximums, minimums and other relatively arbitrary numerical limits, it is intended primarily to be a management tool. When the Director of Finance determines that an exception to one of the Policy's numerical limits is in the best interest of the City, and is otherwise consistent with the Investment Policy, such exception is permitted so long as it is consistent with applicable City, State and Federal laws. Whenever an exception to this Policy is made that fact shall be reported to the City Manager. Similarly, when Policy guidelines are breached inadvertently, that fact shall be reported to the City Manager. All exceptions to the Policy and the appropriate explanation or justification for the exception shall be reported in the Monthly Investment Report.

B. Policy Review

This Investment Policy shall be reviewed from time to time to ensure its consistency with respect to the overall objectives of safety, liquidity and yield, and its relevance to current laws and financial trends. Proposed amendments to the Policy shall be prepared by the Director of Finance, and after review and approval by the City Manager, shall be forwarded to the City Council for consideration and approval.

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INVESTMENT MONTHLY REVIEW

SEPTEMBER 1985

COMPLIANCE QUESTIONS

PURCHASES

A. Prequalification of Dealers/or Banks

(Applies to All Purchases) (Must be before transaction)

1. Is the Dealer on the list of Government Security Dealers Reporting to Market Report Division of Federal Reserve?
2. Is the Dealer not on the list of dealers prohibited for the duration of law suit?
3. Has the dealer or bank filed an acknowledgement of receipt and review of the City's Investment Policy with Treasury?
4. Have Financial Statements been filed with Treasury?
5. Do the Financial Statements include a Balance Sheet and a Profit and Loss Statement?
6. Are the Financial Statements current?
7. Has Treasury reviewed the Financial Statements?
8. Has a Services Agreement been executed?

B. Approved Instruments, Ratings and Maturities

1. LAIF
 - a) Maturity is on demand?
 - b) Total (for category) including this purchase does not exceed \$5,000,000?
2. Insured Deposits - Banks and Savings and Loans
 - a. Bank or Savings and Loan is located in San Jose area?

- b. Maturity does not exceed three years?
 - c. Total including purchase does not exceed \$10,000,000?
 - d. Is a Contract for Public Funds Deposit on file?
 - e. Is a Waiver for Collateralization on file?
3. U.S. Treasury Bonds, Notes and Bills
- a. Maturity does not exceed three years.
4. U.S. Government Agency Issues
- a. Is issue by one of following: Federal Farm Credit Bank; Federal Home Loan Bank; or Federal National Mortgage Association?
 - b. Maturity does not exceed three years?
5. Repurchase Agreements
- a. Maturity does not exceed ten working days?
 - b. Bank or Savings and Loan:
 - 1) Keefe, Bruyette & Woods Rating "B" or better; or
 - 2) For Selected Major California Banks, KBW "C" Rating
 - c. Collateral is one of following:
 - 1) U.S. Treasury or Government Agency issues with Market Value at time of purchase equal to 100% of the repurchase agreement's face value?; or
 - 2) If other than overnight, marked to market on a daily basis maintained equal to 100% of repurchase agreement face value?; or
 - 3) Significantly (?) in excess of the repurchase agreement's face value?
6. Reverse Repurchase
- a. Maturity does not exceed thirty days?
 - b. No other reverse repo in effect at time of purchase?

- c. Prior written approval of City Manager on file?
 - d. Total including purchase does not exceed \$25,000,000?
7. Time Deposits
- a. Is the maturity less than 18 months?
 - b. Is this a selected major California Bank?
 - c. Total including purchase does not exceed 30% of portfolio.
8. Bankers Acceptances and Negotiatble C.D.'s
- a. Is this a selected major California Bank?
 - 1) If yes, is it rated 'C' or better?
 - 2) If no, is it rated 'B' or better?
 - b. Is the maturity no more than 6 months?
9. Commercial Paper
- a. Is this a domestic corporation?
 - b. Does this institution have the highest rating by Moody's or Standard and Poor's?
 - c. Does this institution have total assets of \$500,000,000 or more?
 - d. Does this institution have an 'A' rating or higher on its own indebtedness other than its commercial paper?
10. Total Bankers Acceptances, Negotiable Certificates of Deposit and Commerical Paper, including purchase does not exceed 30% of portfolio.

SALES

- A. Was the sale necessary to meet unanticipated cash needs?